

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

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SUBJECT: GOM INTRODUCES BILLS TO REFORM FINANCIAL SYSTEM

PASS TREASURY

1. ON DECEMBER 22, PRESIDENT ECHEVERRIA SENT CONGRESS THREE BILLS AMENDING STOCK EXCHANGE LAW, ORGANIC LAW OF NACIONAL FINANCIERA (NAFINSA) AND LAW OF CREDIT INSTITUTIONS AND AUXILIARY INSTITUTIONS.

2. BILL TO AMEND STOCK EXCHANGE LAW HAS LONG BEEN IN THE WORKS. PURPOSE IS TO IMPROVE REPORTING REQUIREMENTS AND ENCOURAGE SMALLER FIRMS TO REGISTER THEIR SHARES. BILL ALSO SAID TO ENCOURAGE FUNDING OF BUSINESS EXPANSION THROUGH EQUITY ISSUES RATHER THAN LOANS AND PROVIDES FOR REGULATION OF STOCKBROKERS AND THEIR ACTIVITIES.

3. BILL AMENDING CREDIT INSTITUTIONS LAW REPORTEDLY WILL PERMIT "FULL SERVICE" BANKS AND ENABLE SMALLER BANKS TO COMPETE MORE EFFECTIVELY WITH THE LARGEST FINANCIAL GROUPS. BILL ALSO WILL ENCOURAGE MERGERS OF SMALLER INSTITUTIONS. CURRENT LAW BREAKS FINANCIAL INSTITUTIONS

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INTO SEVERAL CATEGORIES WHICH INCLUDE COMMERCIAL, SAVINGS,

INVESTMENT AND MORTGAGE BANKS. THE LARGE GROUPS HAVE SUBSIDIARIES WHICH ARE ACTIVE IN ALL FIELDS. THE PROPOSED BILL WILL PERMIT, ACCORDING TO NEWSPAPER REPORTS, SAVINGS ON OVERHEAD COSTS AND BETTER CAPITALIZATION THEREBY STRENGTHENING THE FINANCIAL SECTOR.

4. THE PROPOSED AMENDMENTS TO NAFINSA'S ORGANIC LAW WILL PERMIT IT TO ENGAGE IN COMMERCIAL, MORTGAGE AND OTHER BANKING ACTIVITIES. NAFINSA IS GOM-OWNED INVESTMENT BANK WHICH HANDLED MOST OF PUBLIC SECTOR'S EXTERNAL BORROWING AND IS PRIMARY CHANNEL FOR GOM INVESTMENTS IN AND LOANS TO DOMESTIC INDUSTRY. REPORTED PURPOSE OF BILL IS TO ENABLE NAFINSA TO MAKE STILL GREATER CONTRIBUTION TO NATION'S DEVELOPMENT AND STRENGTHEN ITS ECONOMIC INDEPENDENCE.

5. COMMENT: WHILE INTENT TO REFORM STOCK EXCHANGE WIDELY KNOWN, BILLS ON CREDIT INSTITUTIONS AND NAFINSA SEEM TO HAVE BEEN LARGELY UNEXPECTED, THOUGH POSSIBILITY OF FINANCIAL INSTITUTIONS REFORMS MENTIONED DURING CEPICRS REVIEW (STATE A-8990). AS - NAFINSA HOLDS A MAJORITY POSITION IN AT LEAST ONE COMMERCIAL BANK AND MINORITY POSITIONS IN OTHERS, IT IS NOT CLEAR TO US WHY THE GOM WOULD WANT IT TO BECOME A "FULL-SERVICE" AND RETAIL BANK WHICH WILL TAKE TIME AND BE EXPENSIVE. ONE POSSIBLE EXPLANATION IS THAT THE GOM INTENDS THIS TO BLUNT LEFTIST CRITICISM OF THE BILL PERMITTING CONSOLIDATION OF FINANCIAL SERVICES BY PRIVATELY OWNED INSTITUTIONS. WE WILL PROVIDE MORE COMMENT AND ANALYSIS WHEN TEXTS ARE AVAILABLE AND GOM OFFICIALS AND BANKERS RETURN FROM THEIR CHRISTMAS VACATIONS. JOVA

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